Nasdaq, Inc. (NDAQ)

Updated April 28th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	6.1%	**Market Cap:**	$29.1 B
Fair Value Price:	$56	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	06/14/24
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date[1]:**	06/28/24
Dividend Yield:	1.6%	**5 Year Price Target**	$75	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Nasdaq, Inc. operates as a technology company that serves capital markets and other industries worldwide. Nasdaq is primarily known for its equity exchange with 4,269 companies listed securities on The Nasdaq Stock Market, but in addition to its market-services business, the company sells and distributes market data as well as offers Nasdaq-branded indexes to asset managers and investors through its information-services segment. Nasdaq's corporate-services business offers listing services and related investor relations products to publicly traded companies. Non-trading revenues accounted for 74% of net revenues. Nasdaq is a $29.1 billion company and has about 6,400 employees.

Nasdaq's management has defined a 2025 strategy[2] which includes three key metrics for success. Those include Solutions segment organic revenue growth between 7% and 10% per year for the next 3 to 5 years, a serviceable addressable market of ~$20 billion, and increasing SaaS revenues as a percentage of ARR to > 50%. This requires investments into a more scalable platform and creating a leading position in Anti Financial Crime, ESG, Index, and investments analytics.

On April 25th, 2024, Nasdaq reported its first quarter 2024 for the period ending March 31st, 2024. For the quarter, the company reported net revenues of $1.1 billion, marking a 22% increase over the year-ago quarter. This revenue growth was bolstered by a $150 million benefit primarily from the Adenza acquisition and a slight $2 million rise due to FX rate changes. Solutions revenue surged by 35% to $871 million, driven by strong performance in the Index and Financial Technology sectors. Annualized Recurring Revenues (ARR), which is a key metric for Nasdaq's management, saw a 29% year-over-year increase, with notable growth in the Financial Technology segment. However, Market Services net revenues dropped by 9% to $237 million due to declines in U.S. equity derivatives and other trading revenues. Operating expenses increased to $707 million, up 41%, primarily due to the amortization of acquired intangible assets and other acquisition-related expenses. Non-GAAP earnings per diluted share for first quarter decreased by 9% from $0.69 to $0.63. Nasdaq's strategic investments and innovations, particularly in technology and sustainability, are key drivers for its performance in 2024. These initiatives will significantly contribute to revenue growth and are expected to continue playing a crucial role in Nasdaq's future success. Nasdaq's outlook for the remainder of 2024 appears optimistic based on various indicators of economic resilience and a favorable market environment. Additionally, there was an uptick in IPO activities, with 39 operating company IPOs recorded in the first quarter—the highest in two years, featuring nine IPOs with market caps exceeding $1 billion.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$0.96	$1.13	$1.23	$1.35	$1.61	$1.67	$2.06	$2.52	$2.66	$2.82	***$2.80***	***$3.75***
DPS	$0.19	$0.30	$0.40	$0.49	$0.57	$0.62	$0.65	$0.70	$0.78	$0.88	***$0.96***	***$1.35***
Shares[3]	506	493	500	502	496	495	495	500	498	498	***485***	***480***

[1] Estimated date

[2] Investor presentation, January 2023

[3] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Nasdaq has grown earnings by 12.7% per year since 2014 and 10.9% over the past five years. We expect earnings to increase by 6% per year for the next five years.

The company has been able to increase its yearly dividend payout for 12 consecutive years. Over the last five years, the average annual dividend growth rate is above 9%. In April 2024, the company increased its quarterly dividend by 9.1% from $0.22 to $0.24 per share. This is taking into account the 3-for-1 stock split that occurred on August 29th, 2022. The company did not repurchase any shares of its common stock during the first quarter of 2024. As of March 31, 2024, there was $1.9 billion remaining under the board-authorized share repurchase program.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.0	15.3	17.8	17.8	18.0	19.0	19.2	23.2	21.1	20.0	***21.4***	***20.0***
Avg. Yld.	1.9%	1.7%	1.9%	2.0%	1.9%	1.9%	1.6%	1.2%	1.4%	1.4%	***1.6%***	***1.8%***

During the past decade shares of Nasdaq have traded with an average price-to-earnings ratio of 18.5 times earnings and today, it stands at 21.4. We are using 20 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 1.6% which is on par with the average yield over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	27%	33%	36%	35%	37%	32%	28%	29%	31%	***34%***	***36%***

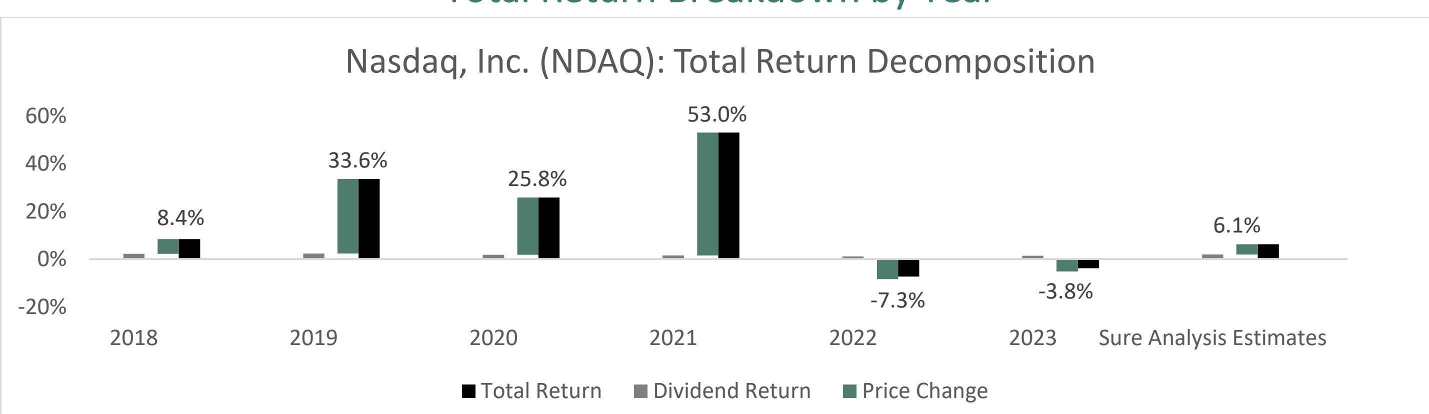
During the past five years, the company's dividend payout ratio has averaged around 31%. Nasdaq's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which we believe to be safe.

Nasdaq is a global technology company providing data, analytics, software, and services, including the popular Nasdaq Stock Market. To keep its leading position, Nasdaq needs to execute its 2025 vision correctly and invest in innovation to accelerate the modernization of its businesses, as well as better supporting its customer base. The company and its management are certainly capable of doing so and have sufficient funding options to do the investments required for this ambition. The 2023 key metrics progress affirms that management's execution of the 2025 strategy remains on track.

Final Thoughts & Recommendation

Nasdaq is a technology stock in the financial services sector with a strong earnings-per-share track record and a modest dividend yield of 1.6%. We estimate total return potential of 6.1% per year for the next five years based on an 6% earnings-per-share growth, a steady dividend yield, and a small valuation headwind. The shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,500	3,403	3,704	3,948	4,277	4,258	5,625	5,886	6,226	6,064
Gross Profit	1,479	1,500	1,611	1,741	1,814	1,828	2,117	2,482	2,579	2,546
Gross Margin	42.3%	44.1%	43.5%	44.1%	42.4%	42.9%	37.6%	42.2%	41.4%	42.0%
SG&A Exp.	507	460	488	518	555	552	600	645	627	417
D&A Exp.	137	138	170	188	210	190	202	278	258	323
Operating Profit	835	902	953	1,035	1,049	1,086	1,315	1,559	1,661	1,806
Op. Margin	23.9%	26.5%	25.7%	26.2%	24.5%	25.5%	23.4%	26.5%	26.7%	29.8%
Net Profit	414	428	106	729	458	774	933	1,187	1,125	1,059
Net Margin	11.8%	12.6%	2.9%	18.5%	10.7%	18.2%	16.6%	20.2%	18.1%	17.5%
Free Cash Flow	492	594	642	765	917	836	1,064	920	1,554	1,538
Income Tax	181	203	27	143	606	245	279	347	352	344

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	12,071	11,861	14,150	15,354	15,700	13,924	17,979	20,115	20,870	32,290
Cash & Equivalents	427	301	403	377	545	332	2,745	393	502	453
Acc. Receivable	389	316	429	356	384	422	566	588	677	929
Goodwill & Int.	7,615	7,354	8,121	9,054	8,663	8,615	9,105	11,246	10,680	21,560
Total Liabilities	6,277	6,252	8,720	9,474	10,251	8,285	11,543	13,710	14,700	21,470
Accounts Payable	189	158	175	177	198	148	175	185	185	332
Long-Term Debt	2,297	2,364	3,603	4,207	3,831	3,387	5,541	5,830	5,399	10,450
Total Equity	5,793	5,609	5,430	5,880	5,449	5,639	6,433	6,395	6,151	10,820
LTD/E Ratio	0.40	0.42	0.66	0.72	0.70	0.60	0.86	0.91	0.88	0.97

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.4%	3.6%	0.8%	4.9%	2.9%	5.2%	5.8%	6.2%	5.5%	4.0%
Return on Equity	6.9%	7.5%	1.9%	12.9%	8.1%	14.0%	15.5%	18.5%	17.9%	12.5%
ROIC	4.9%	5.3%	1.2%	7.6%	4.7%	8.5%	8.9%	9.8%	9.5%	6.5%
Shares Out.	169	164	167	167	165	165	165	167	498	508
Revenue/Share	20.23	19.87	21.94	23.28	25.51	25.50	33.70	34.96	12.51	11.93
FCF/Share	2.84	3.47	3.80	4.51	5.47	5.01	6.37	5.46	3.12	3.03

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.